BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2001-6-G - ORDER NO. 2001-1033

OCTOBER 26, 2001

IN RE: Annual Review of South Carolina Electric and Gas Company's Purchased Gas Adjustments and Gas Purchasing Policies.	))))	ORDER RULING ON PGA AND GAS PURCHASING PRACTICES

This matter comes before the Public Service Commission of South Carolina (the Commission) for the Annual Review of the Purchased Gas Adjustment (PGA) and the Gas Purchasing Policies of South Carolina Electric & Gas Company (SCE&G or the Company). In addition, pursuant to Order No. 94-1117, dated October 27, 1994, in Docket No. 94-008-G, the Commission considered the collection of environmental clean-up costs (ECC) for the period under review, and a proposed increase in the ECC cost factor.

By letter, the Commission's Executive Director instructed the Company to publish a prepared notice concerning the Annual Review of the PGA and the Gas Purchasing Policies, one time, in a newspaper of general circulation in the area affected by the review. The Notice indicated the nature of the review and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceeding. The Company was instructed to directly notify all of its customers affected by the review of the PGA. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene Out of Time was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate). The Petition was granted by Order No. 2001-1008. A hearing on the Annual Review was held on October 18, 2001, at 10:30 AM in the offices of the Commission with the Honorable William Saunders, Chairman, presiding. SCE&G was represented by B. Craig Collins, Esquire and Francis P. Mood, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. The Commission Staff was represented by F. David Butler, General Counsel.

SCE&G presented the testimony of W. Keller Kissam, and Harry L. Scruggs. The Consumer Advocate presented no testimony. The Commission Staff presented the testimony of Roy H. Barnette and Brent L. Sires.

W. Keller Kissam, Vice President of Gas Operations for the Company testified. Kissam testified as to the natural gas purchasing policies of SCE&G and the importance of the Industrial Sales Program (ISP). Kissam also offered testimony with regard to the Company's recovery of costs related to the environmental liability resulting from the cleanup of properties formerly used for manufactured gas plants (MGP).

Kissam noted that SCE&G contracts with South Carolina Pipeline Corporation (SCPC) for all of its natural gas supplies. Volumes are delivered from SCPC to SCE&G at 192 metered delivery points. Through Commission approved tariffs DS-1 and DISS-1, SCE&G has contracted with SCPC for a firm contract demand of 266,495 DTS per day. Kissam states that SCE&G relies on SCPC as its natural gas merchant for several reasons: 1) SCE&G does not own a pipeline system that connects SCE&G's 192 metered delivery points in its distribution system. The SCPC system provides this connection. 2) Operation of the SCPC system is backed by much experience, and SCPC has a thoroughly knowledgeable Staff.

Kissam testified that the Industrial Sales Program allows the Company to compete with alternate fuels in providing service to various interruptible customers. These customers could have switched to alternate fuels had it not been for the ISP program. According to Kissam, without these competitive sales, more fixed costs would be borne by the firm customers.

Kissam recommended a change in SCE&G's current Supply plan for 2001-2002 to 276, 495 dts, an increase of 10,000 dts. over current contract amount. The increase is based on the Company's forecast, economic development, growth, and weather.

Kissam states that SCE&G's purchasing practices were prudent, because they effectively balance reliability of supply and least cost. SCE&G's reliance on SCPC as a merchant affords SCE&G's customers reduced administrative costs while increasing its market power and system reliability in an energy market that changes daily. Further, the ISP program, according to Kissam, allows SCE&G to continue to retain interruptible load and reduce costs system-wide.

The environmental collection factor was also discussed by Kissam. SCE&G seeks a change in this factor from the present level of 1.1 cents per therm to 3 cents per therm, due to anticipated increases in the cost of investigation and cleanup, as detailed in Kissam's testimony. Kissam also requests approval of a new PGA factor of 59.646 cents per therm, which is a decrease of 19.694 cents per therm or 24.8%.

Harry L. Scruggs, Senior Rate and Regulatory Specialist in the Gas Rate Department of SCE&G testified as to the projected base cost of gas factor. Scruggs provided historical data for the review period October 2000 through September 2001, as well as providing computations for the projected cost of gas per therm for the future period September 2001 through October 2002.

With regard to the environmental cleanup cost factor, the Company is seeking recovery of the remaining balance of $25,506,880. SCE&G proposed that the factor be increased from $.011 per therm to $.03 per therm. This would allow the balance to be fully amortized in 2005.

With regard to the cost of gas, the current cost of gas is 79.340 cents per therm, approved by this Commission in Order No. 2001-214.

Considering the cost of gas data for the historical period under review, the Company, according to Scruggs, will have an actual over-collection of $1,889,927 as of October 31, 2001.

As Scruggs states, the historic cost of gas is used as the starting point to project future gas costs. This cost is adjusted for known and measurable changes for the forecasted period November 1, 2001 through October 31, 2002. Much of the projection for the commodity cost of gas was affected by NYMEX index prices.

When all calculations are completed, SCE&G recommends a change in the cost of gas from 79.340 cents per therm to 59.646 cents per therm, a decrease of 19.694 cents per therm. Scruggs notes that the end result, as projected, would have the Company experience an over-collection of $441 on its gas cost as of October 31, 2002.

Roy Barnette and Brent Sires of the Commission Staff testified. Barnette summarized the Audit Staff's findings, and stated that Staff had verified SCE&G's gas costs and Environmental Cleanup Costs for the twelve months ended August 2001. According to

Barnette, SCE&G began the period with an over-collection of $2,008,638. The over-collection for the twelve months ended August 2001, including the projected months of September and October 2001 is $72,964. The cumulative over-collection is $2,081,602. SCE&G's total environmental liability is $57,000,000. After deductions of $19,104,422 for amortization and collections, and $12,388,698 from insurance commitments, the outstanding balance is $25,506,880. Barnette also testified that SCE&G was correctly recovering its gas costs pursuant to its approved tariffs. See prefiled testimony and exhibits of Barnette.

Brent Sires also testified for the Commission Staff. Sires recounted the history of the gas cost recovery procedures approved by this Commission. Sires notes that a combination of historical data and projected data allows the Company to determine the appropriate base cost of gas.

Sires notes that his observations of SCE&G's gas purchasing policies indicate that the Company receives adequate supplies of firm gas to meet its captive customers' needs. Sires reviewed the pipeline and propane-air supplies utilized by SCE&G. Sires pointed out that, based on SCPC's years of experience and expertise in pipeline operations, SCPC can adequately supply SCE&G with its present and future gas needs. Further, Sires concluded that SCE&G receives adequate supplies of firm gas to meet its captive customers' needs and is prudent with regard to its purchase of gas supplies from SCPC. Sires also noted that in light of the many changes which continue to take place which affect the securing and transportation of gas, the Company should continue its on-going program to ensure that its gas supply is consistent with its customers' needs and to ensure that supply efficiency is maintained at reasonable costs. Sires also opined that the operation of the Company's ISP program should continue, since this mechanism allows SCE&G to compete with alternate fuels.

FINDINGS AND CONCLUSIONS

Based on the evidence in the record, the Commission makes the following findings and conclusions:

1) The gas purchasing practices of SCE&G are prudent for the period under review, and SCE&G has properly recovered its gas cost pursuant to the terms and conditions of the Company's approved tariff.

The direct testimony of Company witness Kissam, and Staff witness Sires specifically support this conclusion.

Kissam notes that SCE&G purchases its gas from SCPC under tariffs approved by this Commission. Further, the operation of the SCPC system is backed by much experience among the various members of its knowledgeable Staff.

Staff witness Sires testified that SCE&G's gas purchasing policies provided adequate supplies of firm gas to meet its captive customers' needs at reasonable cost, and that he expected this to be true for the present and for the future.

2) The base cost of gas shall be 59.646 cents per therm effective and beginning with the first billing cycle in November 2001.

The direct testimony of SCE&G witness Scruggs supports this conclusion. Scruggs provided historical data for the review period September 2000 through July 2001, as well as provided computations for the projected cost of gas per therm for the future period November 2000 through October 2001. After all calculations are reviewed, the conclusion is that the base cost of gas should be decreased to 59.646 cents per therm. We would note that the Company's forecasts and models are quite sophisticated, and we are convinced that these are the best predictor of what gas costs will be in the future.

3) The Company shall add a factor of $0.03 per therm in the PGA for environmental clean-up costs. This was discussed in the testimony of Company witnesses Scruggs and Kissam, and Commission Staff witness Barnette. Clearly, the Company's costs have increased beyond those originally envisioned.

4) The current industrial sales program shall be continued. This was virtually uncontested. The program was discussed in the testimony of Company witness Kissam and Staff witness Sires.

The tariffs and rate schedules shall be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION.

William Saunders

Chairman

ATTEST:

Gary E. Walsh

Executive Director

(SEAL)